

## Message Text

LIMITED OFFICIAL USE

PAGE 01 MADRID 09646 271013Z  
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03  
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02  
CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04  
CEA-01 DODE-00 PM-04 H-01 L-03 PA-01 PRS-01 /090 W  
-----271025Z 129154 /13

R 231836Z DEC 76  
FM AMEMBASSY MADRID  
TO SECSTATE WASHDC 8415  
INFO USMISSION OECD PARIS  
AMEMBASSY LISBON  
AMCONGEN BARCELONA  
AMCONGEN BILBAO  
AMCONGEN SEVILLE

LIMITED OFFICIAL USE MADRID 9646

E.O. 11652: N/A  
TAGS: EFIN, ETRD, EGEN, PFOR, SP  
SUBJECT: NOTED ECONOMIST PRESENTS GLOOMY VIEW OF SPANISH ECONOMY

REF: MADRID 8778, MADRID 9475

1. SUMMARY: A NEW STUDY BY SPAIN'S MOST RESPECTED ECONOMICS  
PROFESSOR, ENRIQUE FUENTES QUINTANA, PAINTS A SAD PICTURE  
OF THE SPANISH ECONOMY AND ITS FUTURE. THE 1976 YEAR-END  
RESULTS ARE EXPECTED TO BE: A CURRENT ACCOUNT DEFICIT OF  
4.3 REPEAT 4.3 BILLION DOLLARS, A NEGATIVE RATE OF  
CAPITAL FORMATION, A DEMAND-SUPPORTED REAL GDP GROWTH OF  
ONLY TWO PERCENT, A TWENTY-PERCENT INCREASE IN THE COST  
OF LIVING, AND HIGH UNEMPLOYMENT. IN A SEPARATE FORUM,  
FUENTES AND OTHER RESPECTED ECONOMISTS RECOMMENDED THAT  
SPAIN IMMEDIATELY ADDRESS ECONOMIC PROBLEMS, SPECIFICALLY  
DIRECTING ATTENTION AT THE PUBLIC SECTOR DEFICIT.  
END SUMMARY.  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MADRID 09646 271013Z

2. IN A SHORT STUDY PRESENTED DECEMBER 20 BY PROFESSOR  
FUENTES QUINTANA, WEARING THE HAT OF CHIEF OF STUDIES  
AND PROGRAMS OF THE CONFEDERATION OF SAVINGS BANKS,  
SOME ECONOMIC ESTIMATES FOR 1976 WERE PRESENTED.  
PROBABLY THE MOST SOBERING ESTIMATE RELEASED BY FUENTES

IS FOR THE SPANISH 1976 BALANCE OF PAYMENTS DEFICIT ON CURRENT ACCOUNT. HE EXPECTS IT TO APPROXIMATE 4.3 REPEAT 4.3 BILLION DOLLARS. SPANISH FOREIGN EXCHANGE RESERVES, EVEN THOUGH BUOYED BY FOREIGN LOANS, HAD SUNK TO JUST OVER FIVE BILLION DOLLARS BY OCTOBER (DOWN FROM 5.9 REPEAT 5.9 BILLION IN FEBRUARY) AND FOREIGN DEBT IS NOW PRIVATELY ESTIMATED AT \$12 TO \$13 BILLION. (WE NOTE THAT UNTIL FAIRLY RECENTLY FINANCE MINISTER CARRILES WAS CLAIMING THAT THE CURRENT ACCOUNT DEFICIT COULD BE THE SAME AS LAST YEARS 3.5 REPEAT 3.5 BILLION DOLLARS. HOWEVER, BOP CURRENT ACCOUNT FIGURES THROUGH AUGUST 1976 WERE RUNNING AT JUST OVER \$600 MILLION ABOVE THE 1975 LEVEL IN THE SAME PERIOD, PRIMARILY BECAUSE OF DECREASED TOURISM AND INCREASED TECHNOLOGY PURCHASES. SINCE THE FINAL 1975 DEFICIT WAS ABOUT \$3.5 BILLION, WE ARE CONFIDENT FUENTES QUINTANA IS NEARER THE MARK - EVEN IF POSSIBLY ON THE HIGH SIDE.)

3. OTHER FIGURES USED ARE IN LINE WITH PREVIOUSLY RELEASED GOVERNMENT STATISTICS: 1976 WILL END WITH A 20 PERCENT INCREASE IN THE COST OF LIVING, THREE-QUARTERS OF A MILLION UNEMPLOYED WORKERS, AND CAPITAL FORMATION DOWN ONE PERCENT FROM LAST YEAR. SALARIES DURING THE YEAR REPORTEDLY HAVE INCREASED AT A RATE WELL ABOVE THE COST OF LIVING.

4. LOOKING INTO THE FUTURE, FUENTES TAKES AS HIS STARTING POINT THE HYPOTHETICAL OBJECTIVE OF A THREE PERCENT GDP GROWTH IN 1977 (THE MINISTER OF FINANCE HAS SPOKEN OF A 3.5 PERCENT GROWTH IN NATIONAL PRODUCT). TO LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 MADRID 09646 271013Z

ACHIEVE THIS OBJECTIVE, FUENTES ASSERTS, WOULD REQUIRE THE INFLATION RATE TO FALL FOUR PERCENT FROM THE PRESENT LEVEL. IT WOULD ALSO REQUIRE THE BUSINESS COMMUNITY TO STOP DISINVESTING IN CAPITAL AND BEGIN TO INCREASE CAPITAL FORMATION BY AT LEAST A ONE PERCENT ANNUAL RATE. EVEN WITH THAT, UNEMPLOYMENT COULD BE EXPECTED TO CONTINUE GROWING. FUENTES SIMPLY NOTES THAT THIS DESCRIBES A PRESENTLY GRAVE SITUATION.

5. ON DECEMBER 22, IN A MEETING SPONSORED BY THE ASSOCIATION FOR MANAGEMENT PROGRESS, FUENTES JOINED OTHER ECONOMISTS TO DISCUSS THE SPANISH ECONOMIC FUTURE. FUENTES OUTLINED HIS THEORIES ON THE ORIGIN OF THE QUOTE THREE ECONOMIC CRISES END QUOTE (SEE MADRID 8778). THIS TIME FUENTES PUT SPECIAL EMPHASIS ON CRISIS NUMBER THREE: " ILL-DEFINED INTERFERENCE OF THE PUBLIC SECTOR IN THE MARKET ECONOMY." HE SAID PUBLIC ENTERPRISES WERE LIVING ON SUBSIDIES, INEFFICIENTLY USING RESOURCES AND DRIVING

OUT PRIVATE COMPETITION. FERNANDEZ ORDONEZ, A PAST PRESIDENT OF INI (THE GOS HOLDING COMPANY) AND PAST UNDERSECRETARY OF FINANCE, ACCUSED THE GOS OF UNDERSTATING EXPENDITURES AND OVERSTATING REVENUES IN ITS 1977 BUDGETS. FERNANDEZ CALLED FOR AN OVERHAULING OF THE PUBLIC SECTOR BY IDENTIFYING NEW PRIORITIES AND ELIMINATING USELESS EXPENDITURES.

6. THE STATISTICS AND OPINIONS MOST RECENTLY AIRED BY FUENTES HAVE BEEN FULLY REPORTED IN THE MAJOR PAPERS, WHICH HAVE BEEN INCREASING THEIR COVERAGE OF THE ECONOMIC SITUATION. KEY EDITORIAL OPINION IS CURRENTLY PARRALLELING FUENTES' VIEWS, AND URGING THE GOS TO BEGIN BEFORE THE ELECTIONS TO TREAT THE ECONOMY. STABLER

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** REPORTS, STUDIES, ECONOMIC TRENDS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 23 DEC 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** coburnhl  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976MADRID09646  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D760472-0831  
**From:** MADRID  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1976/newtext/t19761217/aaaaaooq.tel  
**Line Count:** 129  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EUR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 77 MADRID 8778, 77 MADRID 9475  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** coburnhl  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 26 APR 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <26 APR 2004 by BoyleJA>; APPROVED <12 AUG 2004 by coburnhl>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** NOTED ECONOMIST PRESENTS GLOOMY VIEW OF SPANISH ECONOMY  
**TAGS:** EFIN, ETRD, EGEN, PFOR, SP, (QUINTANA, ENRIQUE FUENTES)  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006